

Message Text

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ACTION EB-11

INFO OCT-01 NEA-10 ISO-00 SCEM-02 INT-08 SCI-06 OMB-01

TRSE-00 ACDA-19 EA-11 EUR-25 ARA-16 CIAE-00 DODE-00

PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01

PRS-01 SPC-03 SS-20 SSO-00 NSCE-00 INRE-00 USIE-00

CIEP-02 FRB-02 CEA-02 DRC-01 /179 W

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC IMMEDIATE 4907

C O N F I D S N T I A L TEHRAN 9083

DEPT PASS ALL OECD AND OPEC CAPITALS

E.O. 11652: GDS

TAGS: ENRG, OPEC, OECD, IR

SUBJECT: OPEC PRICE INCREASE - COMMENT

1. SUMMARY: OIL PROBLEM, IN OUR VIEW, HAS LENT INCREASED URGENCY TO THE NEED FOR REFORM OF THE INTERNATIONAL TRADE AND PAYMENTS SYSTEM. GIVEN PRODUCERS PRESENT STRENGTH, ONLY FEASIBLE METHOD FOR ACHIEVING THIS APPEARS TO BE OPEC-OECD TALKS FOR PURPOSE OF ARRIVING AT SUITABLE RECOMMENDATIONS FOR CHANGE. END SUMMARY.

2. ALTHOUGH THE DUST OF THE DECEMBER 22-23 OPEC MEETING IN TEHRAN HAS NOT YET SETTLED, FROM OUR VANTAGE POINT WHAT LIES AHEAD SEEMS CLEAR. THE PRICE OF OIL, AS MEASURED BY TAX PAID COST, HAS QUADRUPLED IN THREE MONTHS AND INCREASED SEVEN TIMES IN THE LAST THREE YEARS. OPEC IS CLEARLY IN THE SADDLE AND APPARENTLY INTENDS TO RIDE THE BEAST FOR ALL IT IS WORTH.

3. AS DEMARCHES CONSISTING OF PLEAS FOR SWEET REASON ARE TO LITTLE OR NO AVAIL, WE BELIEVE WE HAVE ONLY ONE LOGICAL OPTION: TO URGE OUR OECD PARTNERS TO JOIN WITH US AND OPEC TO DISCUSS THE OIL PROBLEM IN RELATION TO THE CREATION OF A NEW SYSTEM OF INTER-

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PROBLEM IN RELATION TO THE CREATION OF A NEW SYSTEM OF INTER-

NATIONAL TRADE AND FINANCE. NEGOTIATIONS LONG UNDERWAY AMONG GROUP OF TEN, AND NOW AMONG COMMITTEE OF 20 NATIONS, TO REBUILD INTERNATIONAL FINANCIAL ARRANGEMENTS APPEAR MEANINGLESS WITHOUT INCLUDING LATEST DEVELOPMENTS IN OIL AND INDEED OVERALL WORLD COMMODITY SITUATION AS ITEM HIGH ON AGENDA. IN FACT, OIL PROBLEM HAS MADE INTERNATIONAL TRADE AND PAYMENTS REFORM EVEN MORE URGENT. TWO FACTORS WOULD PERHAPS OPERATE IN OUR FAVOR IN SUCH DISCUSSIONS (A) THE BELIEF OF MANY OFFICIALS IN OIL PRODUCING NATIONS THAT THE WEST, GIVEN ITS TECHNOLOGY AND SUFFICIENT POLITICAL WILL, CAN REDRESS IN THE MEDIUM TERM THE LOPSIDED BALANCE THAT PRESENTLY FAVORS THE PRODUCERS, AND (B) THE BELIEF OF THE PRINCIPAL OIL PRODUCERS THAT THEIR INTERESTS ARE BETTER SERVED BY ECONOMICALLY HEALTHY AND FRIENDLY INDUSTRIALIZED NATIONS THAN BY INJURED AND ANGRY ONES.

4. SOME HAVE SUGGESTED, AND SOME NEWSMEN HERE BELIEVE, THE THE GOI WAS IN THE FOREFRONT IN PUSHING FOR THE \$11.65 POSTED PRICE, IMPLYING \$7 PER BARREL GOVERNMENT TAKE, DECIDED BY THE DECEMBER 22-23 OPEC MEETING HERE. IT MAY BE SO: IN FACT THE SHAH HAS CLAIMED CREDIT FOR THE REASONING ON WHICH THE \$7 FIGURE WAS BASED. OUR ESTIMATE, NEVERTHELESS, IS THAT THE SHAH SINCERELY BELIEVES THAT THIS IS A STEP TOWARD A RATIONAL SOLUTION OF THE OIL PROBLEM, AND A MODERATE DECISION IN VIEW OF THE CIRCUMSTANCES (AND IN VIEW OF HIS NEED TO SATISFY A STREAK OF NATIONALISTIC OPINION IN IRAN - THE SHADE OF MOSSADEGH - THAT IS INCLINED TO BELIEVE THAT THE RESULT OF IRAN'S RECENT TENDER IS THE MEASURE OF WHAT IRAN SHOULD CHARGE FOR ITS OIL).

5. WE BELIEVE, TOO, THAT THE SHAH'S PROPOSAL, HOWEVER SIMPLISTIC, OFFERS A SENSIBLE STARTING POINT FOR TALKS BETWEEN OPEC AND OECD, TALKS WHICH WE WOULD URGE SHOULD BE INITIATED AS QUICKLY AS THE NECESSARY AND COMPLEX PREPARATIONS FOR SUCH A MEETING WILL ALLOW. CLEARLY MANY QUESTIONS MUST BE ASKED, AND THE BEST FACTS, FIGURES AND ARGUMENTS AVAILABLE MUST BE BROUGHT TO BEAR. IF, FOR EXAMPLE, OPEC'S EXPRESSINGS OF RAGE AT EUROPE'S TAXES ON OIL PRODUCTS ARE UNREALISTIC BECAUSE LOWER TAXES WOULD HAVE STIMULATED DEMAND AND EXACERBATED THE PRESENT SITUATIONS, AND IF THE PRODUCER'S EFFORTS TO REMOVE THESE REVENUES FROM THE POCKETS OF EUROPEAN GOVERNMENTS AND PUT THEM IN THEIR OWN HAVE INTOLERABLE BALANCE OF PAYMENTS IMPLICATIONS, WE MUST SHOW

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THEM THIS. IF IT IS NOT TRUE THAT PRICES OF OECD NATIONS GOODS HAVE INCREASED AS MUCH AS THE SHAH HAS SAID (DURING THE LAST THREE YEARS, THE GENERAL PRICE LEVEL OF OECD PRODUCTS HAS CERTAINLY RISEN LESS THAN 40 PERCENT WHILE OIL PRODUCTS'S REVENUES HAVE INCREASED SEVEN TIMES), THEN WE MUST PROVE IT. IF \$7 PER BARREL IS NOT THE BEST ESTIMATE OF THE COST OF ALTERNATE SOURCES OF ENERGY, WE NEED TO OFFER BETTER ESTIMATES, AND TO BACK THEM UP. IF THIS PRICE INCREASE IS TOO GREAT TO ABSORB

IMMEDIATELY, WHEN ALTERNATE SOURCES OF ENERGY ARE STILL SO FAR AWAY, AND WILL CAUSE SEVERE ECONOMIC DISLOCATIONS FOR ALL CONCERNED, THEN THIS TOO MUST BE PROVEN.

6. IF THERE IS LITTLE OR NO CHANCE TO GET OPEC TO TAKE A BACKWARD STEP ON PRICE, PERHAPS WE CAN NEGOTIATE WAYS FOR THEM EFFECTIVELY TO INSTIGATE THE CONSEQUENCES OF THE PRICE INCREASE. THE SHAH HAS SUGGESTED CREATION OF A DEVELOPMENT FUND BY SURPLUS REVENUE COUNTRIES TO RELIEVE THE DEVELOPED NATIONS OF THE BURDEN OF ASSISTING THE DEVELOPING WORLD, AS WELL AS INVESTMENT BY SUCH COUNTRIES AS IRAN IN BOTH DEVELOPED AND DEVELOPING NATIONS. PERHAPS ALSO THE OIL PRODUCERS MIGHT BE CONVINCED TO ACCEPT SOME SORT OF LONG-TERM ASSURE-VALUE FINANCIAL INSTRUMENTS FROM DEVELOPED NATIONS IN EXCHANGE FOR SOME PORTION OF THEIR OIL EXPORTS. ABOVE ALL, IF WE DO NOT WISH TO LIVE WITH WHATEVER PRICE SYSTEM OPEC MAY IMPOSE, WE AND OUR OECD PARTNERS MUST BE PREPARED TO OFFER CONCRETE ALTERNATIVE. OUR FAILURE, AND THAT OF THE OIL COMPANIES, TO DO SO UP TO NOW HAS FRUSTRATED AND IRRITATED OPEC MEMBERS.

7. IN ANY CASE, IT SEEMS TO US THAT WE FACE CHALLENGES AS BROAD AND AS SERIOUS AS THOSE PRESENTED BY THE AFTERMATH OF WW II AND THAT OUR RESPONSE MUST BE COMMENSURATE WITH THE SUCCESSFUL EFFORT WE MADE AT THAT TIME.
HELMS

NOTE BY OC/T: NOT PASSED OECD OR OPEC CAPTIALS.

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